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Bush Aides' Ethics Questioned Over Loans to Iraq

Rep. Gonzalez Says Scowcroft's and Eagleburger's Prior Business Dealings Posed a Conflict

By George Lardner Jr.
Washington Post Staff Writer

The chairman of the House Banking Committee accused two high-ranking Bush administration officials yesterday of "deplorable" ethics in pressing for U.S.-guaranteed loans to Iraq in 1989 despite their prior association in private business with the bank that handled much of the money.

Rep. Henry B. Gonzalez (D-Tex.) sharply criticized White House national security adviser Brent Scowcroft and deputy Secretary of State Lawrence S. Eagleburger for advocating \$1 billion in new agricultural credits for Iraq over stiff opposition from other government agencies.

The dispute within the administration stemmed from a scandal involving Italy's biggest bank, the Banco Nazionale del Lavoro (BNL), whose Atlanta branch was Iraq's chief source of credit in the United States between 1984 and 1989. Evidence seized in an FBI raid on the bank in August 1989 showed that Iraq had been involved in a massive fraud effort to borrow billions of dollars from BNL-Atlanta, far in excess of the amounts the bank reported to the Federal Reserve.

About \$900 million of such loans had been guaranteed by the Agriculture Department's Commodity Credit Corp. for the purchase of U.S. goods. "The CCC program for Iraq was the cornerstone of U.S.-Iraq relations," Gonzalez said in a speech on the House floor. "In turn, BNL was the largest participant in the CCC program for Iraq."

Scowcroft and Eagleburger were officials of Kissinger Associates, the international consulting firm run by former Secretary of State Henry A. Kissinger, when BNL was one of its clients. Scowcroft left the firm to become President Bush's national security adviser in January 1989. Eagleburger departed two months later for the State Department.

Scowcroft and Eagleburger declined to comment on Gonzalez's contentions that they should have disqualified themselves from the intense administration debate over continuation of the CCC program for Iraq. But officials familiar with their views said they felt their connections with BNL while at Kissinger

Associates were too tenuous to cause concern.

Gonzalez disagreed. "While at Kissinger Associates, Mr. Scowcroft worked on the BNL account and met on numerous occasions with the BNL management," he said. "On three occasions between 1986 and 1989, Mr. Scowcroft briefed the BNL board on international political and economic developments. In addition, when the president of BNL traveled to the United States to attend the annual IMF [International Monetary Fund] conference, he met with Kissinger and Scowcroft in New York."

An administration official, who asked not to be identified, said none of Scowcroft's BNL consultations involved Iraq.

State Department spokesman Richard Boucher said that Eagleburger, who was president of Kissinger Associates while Scowcroft was vice chairman, "has never done any work for BNL and therefore, there has never been any basis for Eagleburger to recuse himself from any matter related to BNL."

Gonzalez contended that Eagleburger still should have disqualified himself, and noted that Renato Guadagnini, former head of BNL's operations in the United States, told committee investigators that Eagleburger was at a meeting between BNL managers and Kissinger Associates in New York in 1987.

Iraq was granted \$1 billion in new CCC credits in the fall of 1989, although the money was to be disbursed in two installments because of concern about the breaking BNL scandal. At the time, government documents show, there was mounting evidence that the Iraqi program was riddled with corruption, including kickbacks and bribes demanded by Iraqi government agencies and questionable consulting fees for Iraqi front companies in the United States.

"If smoke indicates fire, we may be facing a four-alarm blaze in the near future," said an Oct. 13, 1989, State Department memo about apprehensions at the Agriculture Department. "[T]here were 19 separate investigations of CCC this year (1989) and the integrity of the program is now in question." The memo said there were indications Iraq might have used some of the money "to procure nuclear-related equipment."

Despite the warnings, Bush that month issued a national security directive ordering closer economic and political ties with Iraq. Secretary of State James A. Baker III appealed to the Agriculture Department to go forward with the full \$1 billion program, and Eagleburger urged the Treasury Department and the Office of Management and Budget to drop their opposition. In a Nov. 8, 1990, letter to Treasury, he called it "important to our efforts to improve and expand our relations with Iraq, as ordered by the president."

Gonzalez said the NSC staff under Scowcroft also was "heavily in-

involved" in winning approval for the Iraqi program and later supervised release of an Agriculture Department review that Gonzalez charged was a "complete whitewash."

According to a confidential March 5, 1990, State Department memo, the NSC staff expressed interest in securing release of the second \$500 million installment for Iraq "after the Iraqi ambassador complained to General Scowcroft" about U.S. foot-dragging. The Agriculture Department finally halted the program at the halfway mark in May 1990 as relations with Iraqi President Saddam Hussein worsened.